

## SeeWhy Financial Learning's ~ LLQP Exam Preparation Materials ~

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Here at SeeWhy Financial Learning, we endeavour to help all students who are having difficulty learning the material, regardless of which course provider they have chosen.

We have a knack for making difficult concepts seem easy. After hearing a topic explained properly by one of our trainers, our students often say, "Why doesn't the textbook just teach it that way?" We don't know why, so we started our own company!

### **Scenario #1: You've have not yet enrolled in an approved LLQP® course...**

Do you learn best in a classroom setting?

We are affiliated with ILS Corp. who is an accredited LLQP® Course Provider. In conjunction with the Insurance Advisor Training Centre, ILS Corp. has a unique and effective LLQP® program.

ILS Corp.'s LLQP® program is an instructor led "webinar". You get all of the benefits of classroom learning in the privacy of your own home, and at a fraction of the cost that a seminar provider normally charges. To enrol in the course, visit [thetrainingcentre.ca](http://thetrainingcentre.ca).

### **Scenario #2: You have enrolled in an approved LLQP® course and are having difficulty understanding the material...**

Our Course Summary study guide is a fantastic tool that will teach you the fundamentals of insurance. While these notes are not a complete replacement for your vendor's textbook, they will help you pass your certification exam and will definitely help you with the actual Provincial licensing exam.

You find sample excerpts from our Course Summary study guide on pages 5 - 20.

Once you have successfully passed your vendor's course, refer to scenario #3.

**Scenario #3: You have already passed an actual certification exam and are preparing for the Provincial licensing exam...**

Congratulations! You have studied hard and passed your certification exam, and now you are faced with the more challenging Provincial licensing exam. Perhaps you have heard stories about your colleagues doing well on the qualification exam only to "bomb" the licensing exam, or perhaps you have already failed the exam once and are getting ready to write it again. Rest assured that SeeWhy Financial Learning is here to help. Remember, our motto is, **"If you don't pass, You don't pay. Period!"**

SeeWhy Financial Learning's LLQP® Exam Preparation software contains over 500 Key Concept flash cards and exam level multiple choice questions. It fills the gaps between what you learned for the certification exam and what you need to know for the Provincial licensing exam. Flash cards quickly teach you the "must know" concepts, and the exam level multiple choice questions are similar to the real exam in terms of wording, difficulty and focus. A \$99.99 investment in our **money back guaranteed** LLQP® exam prep software, or a \$149.99 investment in our **money back guaranteed** LLQP® exam prep success package (software & study guide) can help make the difference! Here's why:

**1. There are things tested on the licensing exam that may not have been covered in your course provider's textbook.**

The provincial regulators give each provider a "syllabus" (list of items that will be tested on the exam) that they must teach their students; however, this leaves room for interpretation. For instance, if "group insurance" or "inflation" is on the syllabus, what exactly does that mean? How much detail should the course provider go into? While all course providers have done an excellent job with their textbooks, there are things that will appear on the LLQP® exam that may not be in your textbook.

For example:

- What has the inflation rate been in Canada over the past 10 years?*
- Does group disability insurance have a "pre-existing conditions" clause?*
- Can banks sell life annuities?*

The above are just a few of the things that can and do appear on the actual licensing exam. In many cases, a concept may be covered in your textbook but has been simply skimmed over. In other cases, a concept may not have been covered in your textbook at all. Fortunately, our exam prep program will bring this information to your attention.

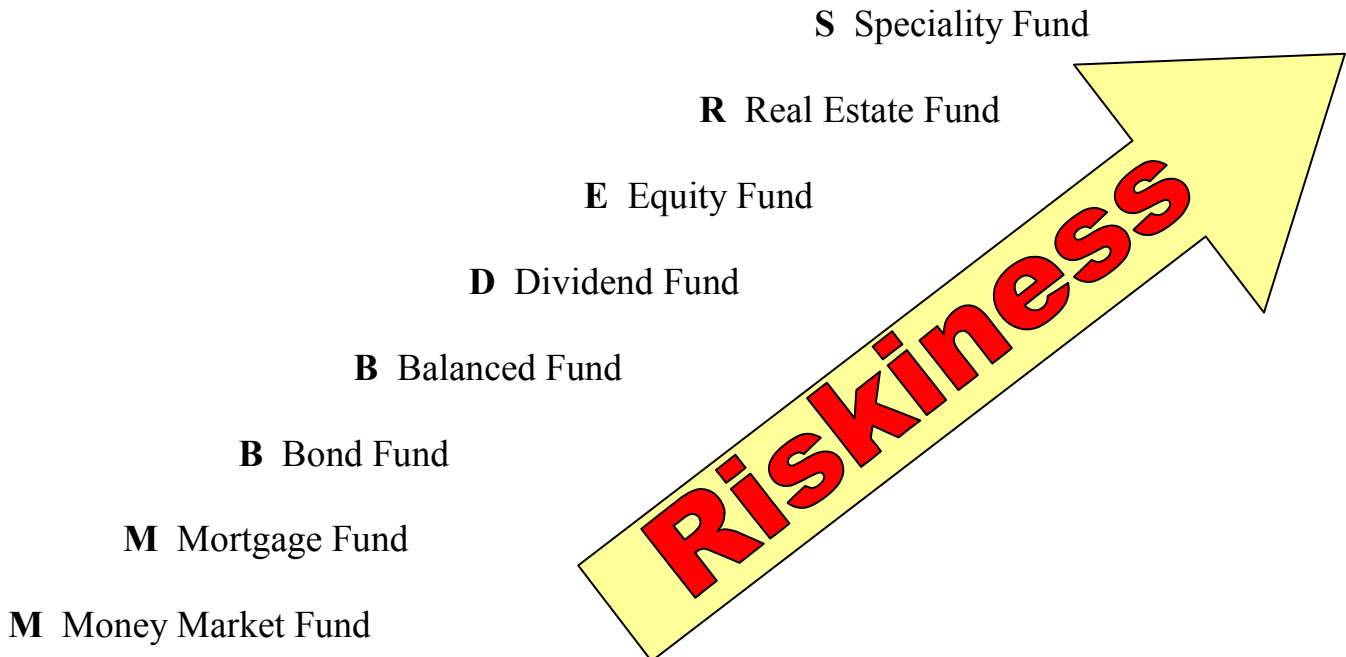
2. **Our Exam Preparation software allows you to cover a lot of ground quickly, saving you study time.**

Even just a few hours with our program can get you many marks on your exam. These can be very valuable marks given the fact that many students fail the licensing exam by less than 5%.

3. **Our Exam Preparation software will give you many good memory aids. For example:**

*To remember the order of risk of segregated funds, from lowest to highest:*

**Memory aid: My Mortgage Broker Brought Down Every Rate Substantially**



*To remember what is considered "earned income" for RRSP calculation purposes?*

**Memory aid: "Why Don't Really Rich Athletes Retire Sooner?"**

- W Wages (salary or net self employment income)
- D Disability from CPP
- R Royalties (income from)
- R Rental income (net)
- A Alimony received (deduct if paid)
- R Research grants
- S Supplementary E.I.

Note: While investment income is taxable, it is not considered earned income for RRSP contribution room calculation purposes.

**4. If you don't know some of the following concepts, you need our Exam Preparation Software!**

- What happens if you start smoking after your life insurance policy was approved and issued?
- Is the insurance and securities industry federally or provincially regulated?
- What are the tax consequences if money is withdrawn from a spousal RRSP within 3 years of the contribution, but due to marital breakdown?
- What are the 3 different types of penalties that may apply to early withdrawals from a deferred annuity?
- If your child needs a "crown", does that fall under basic dental coverage, orthodontic coverage, or major restorative coverage?
- If a group plan has a *single* deductible and a *family* deductible, how does that work?

## Course Summary Study Guide: Sample Excerpts

Our study notes read very much like we teach. They are informal, use everyday language, give you insight as to what is most important for the exam, and use memory aids. All of this makes the learning easier.

While you cannot use our study notes as your exclusive study aid for your certification exam (every course will test slightly different things), our study notes will help you understand the fundamentals of insurance. This will help you pass your certification exam and will definitely help you pass the actual provincial licensing exam.

The following pages provide some excerpts from our study notes to give you a feel for how we simplify concepts.

### Excerpt #1: Introduction to Individual Life Insurance Products

As you are probably already aware, insurance is all about protecting an individual from risk. Consider the following example:

Mandy is a single mom with a 5-year-old daughter. Mandy had a very tough life and wants her daughter to get a good education so she can enjoy a higher standard of living. Mandy is saving \$250 a month towards her daughter's education. She worries about what would happen if she were to pass away before she has saved enough for her daughter's education. Her advisor told her that life insurance is the solution to her concern. Mandy bought a \$100,000 life insurance policy that will pay out in the event that she dies before reaching her goal. The insurance would then provide the required funds for her daughter's education. Mandy was very impressed when she learned that the death benefit on a life insurance policy is **received tax-free!**

The above example shows how insurance can address the risk of dying too soon (before you have reached a financial goal). Obviously, one can face other risks. The following table quickly summarizes some of those risks and an appropriate insurance product that would address the consequences of that risk. Don't be concerned if you do not completely understand the proposed solution – we will revisit these products in the coming chapter(s).

Risk	Solution
<p><b>Risk of dying too soon:</b> Dying before a certain goal is reached such as your child finishing university, your spouse retiring, your mortgage being paid off.</p>	<p><b>Life insurance:</b> A life insurance policy will pay out a lump sum benefit when the annuitant (the person on whose life the contract is based) dies.</p>
<p><b>Risk of living too long:</b> At first, this may not sound like much of a "risk", but what if a newly retired person has only saved enough money to last him until age 90? How will he support himself if he lives beyond that age?</p>	<p><b>An annuity:</b> The insured pays a premium to the insurance company in exchange for a guaranteed income for a specified period. For example: Mark gave the insurance company \$500,000 and in exchange will receive an annual income of \$60,000 for life.</p>
<p><b>Risk of a disability prior to retirement:</b> Your ability to earn an income is usually your biggest asset. "How would you support yourself if you couldn't work and generate an income?"</p>	<p><b>A disability policy:</b> A disability policy will pay the insured a stated income for a specified period in the event that they become disabled and unable to work.</p>

## Excerpt #2: Term vs. Perm

### Different Types of Life Insurance

Life insurance policies fall under two main categories:

#### Temporary Insurance (coverage ends on a certain date)

- Term insurance

#### Permanent Insurance (coverage never goes away as long as the premium is paid)

- Whole life insurance
- Term-to-100 insurance (also known as T-100)
- Universal life insurance

Each of these policies will be discussed throughout the chapter. Before doing so, it is important that we help you understand the difference between a temporary and a permanent life insurance need. On the exam, when asked what type of policy you would recommend, the fundamental question that you have to ask yourself is "Is this a temporary or permanent need?"

As a rule, if you can fill in the following blanks, it is a temporary need.

"This insurance need will go away on <Month, Day, 2XXX>, or XX years."

If you cannot put an exact date or number of years on your insurance need, then it is a permanent need.

The following table illustrates some insurance needs and whether they would be considered temporary or permanent:

<b>Insurance need</b>	<b>End date?</b>	<b>Term or Perm</b>	<b>Recommend</b>
Pay out a mortgage when one spouse dies.	This need will go away in 25 years (or less) when the mortgage is paid off.	Term	Term insurance
Cover capital gain taxes on an investment property at death.	This need does not have a definite end date because you don't know when you will die.	Perm	Permanent insurance
Fund a child's education if one or both parents die prematurely.	This need will go away when your child starts University (you should have the money saved by then).	Term	Term insurance
Gift money to a charity at death.	This need does not have a definite end date because you don't know when you will die.	Perm	Permanent insurance
Funds required to pay for your funeral.	This need does not have a definite end date because you don't know when you will die.	Perm	Permanent insurance

### **Excerpt #3: Term Insurance**

#### Temporary Insurance (Term Insurance)

Term insurance is very similar to car insurance, meaning it is pure insurance, plain and simple. Unless you have a claim during the term (the annuitant dies) you will not receive any financial payout from the policy. At the expiry of the "term" the policy is finished, unless the policy is a renewable one. The renewable feature will be discussed shortly.

#### *Term insurance in action*

Margaret has a 10 year old daughter and is saving for her child's university education. Margaret knows that she will save enough money by the time her child attends university, but worries about what would happen to that plan if she were to die unexpectedly. Margaret's insurance need could be addressed with a 10-year term policy, as follows:

- If Margaret dies in the next 10 years, the policy will pay a death benefit that can be used to fund her daughter's university education.
- If Margaret does not die in the next 10 years, she will continue saving and will have enough savings accumulated to personally fund her child's education.

The following bullet points should be known about term insurance:

- Term insurance has a specific end date and is therefore only suitable for temporary needs.
- Term insurance has no cash value, meaning you will not get any money back if you cancel the policy. In fact, the only way to receive any financial consideration from a term insurance policy is if the annuitant dies during the term.
- Term insurance is cheaper than any permanent type of insurance policy.

#### **Advantages of term insurance**

1. Allows the individual to insure a temporary need with a relatively cheap premium. The premium on a term insurance policy in the early years would be much cheaper than the premium on a permanent plan.
2. Easy for the client to understand. "This is your premium and if you die during the term, this is the amount of the death benefit." That is really it. There is really nothing fancy or complicated about term insurance.

**Disadvantages of term insurance**

1. The death of the annuitant is generally the only way for the beneficiary / policyholder to receive any benefit from the policy.
2. When the term expires the policy is done (unless it is renewed). If the annuitant survives the term, the insured receives nothing in return for the premiums paid (other than the peace of mind he had knowing he was protected).
3. Even after years of paying premiums, if the insured cancels the policy he would receive no financial consideration.
4. Even if renewable, the premium would increase each renewal period. At some point the annual premium would become prohibitively expensive. For example, the premium on a \$100,000 term policy on a 99 year old man would be very close to \$100,000. This is because when setting insurance premiums most insurer's assume everyone will die by age 100.

Term insurance can be level, increasing or decreasing, as outlined below:

<u>Type of term</u>	<u>Coverage amount</u>	<u>Premium</u>
Level term	Remains Level during term	Level through the term
Increasing term	Increases each year of term	Increases each year of term
Decreasing term	Decreases each year of term	Level through the term*

- \* Note on decreasing term: Although the premium remains level the fact that the coverage will decline is factored in when setting the premium. For example, the annual premium on level term may be \$2.20 per thousand but only \$1.80 per thousand on a decreasing term policy.
- \* On the exam, if you are trying to protect against a temporary need you have to consider if the need will increase, decrease or remain level during the term. For example, with an education fund decreasing term would be appropriate. The need has a definite end date but will decrease during the term as the parent saves towards the child's education fund.

**Example 1:**

**Level Term Insurance**

Anita owns her own business where she has taken out a 5 year loan. The loan is for \$20,000 and requires interest only payments. In 5 years, Anita expects to have the \$20,000 from another source to payout the loan, but wants to make sure that her estate has sufficient funds to retire the loan if she were to die in the meantime. What would you recommend?

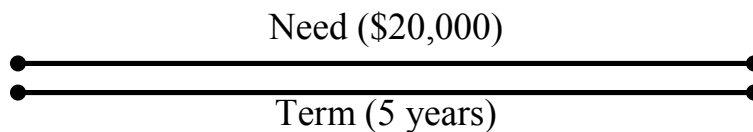
**Can we put an end date on this need? If so, when?**

- Yes, therefore term insurance is appropriate. This need will go away in 5 years.

**Will the coverage amount remain level, increase or decrease during the term?**

- The need will remain level. Therefore, level term insurance is appropriate.

*Illustration:*



**Example 2:**

**Increasing Term Insurance**

Sam owns his own business. Rory works for him and is one of the company's best salesmen. Sam knows that if Rory were to die, the profitability of his business would be affected in the short term. As a result, Sam bought life insurance on Rory. In the event that Rory dies, the death benefit will be paid to the company and help offset the financial impact of Rory's death. What would you recommend?

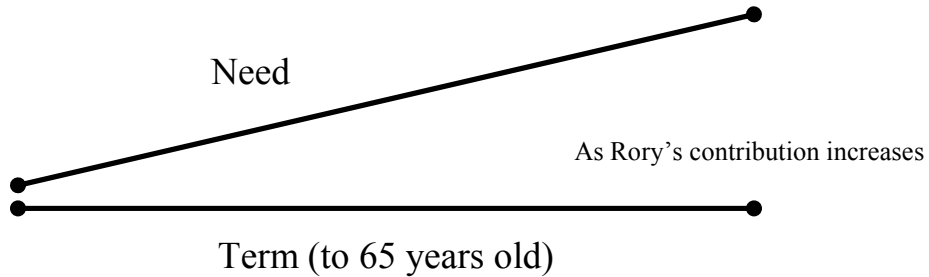
**Can we put an end date on this need? If so, when?**

- Yes, therefore term insurance is appropriate. This need will go away when Rory reaches age 65, because he would probably retire and the company should have had a succession plan in place.

**Will the coverage amount remain level, increase or decrease during the term?**

- The need will increase as Rory's contribution increases. Therefore, increasing term is appropriate.

*Illustration:*



**Example 3:**

**Decreasing Term Insurance**

Martin and his wife just had a baby girl. Martin has been advised that he must have \$100,000 saved by the time his daughter reaches 18 years old in order to fund her university education. The savings plan is manageable, but he worries about what would happen if he dies before he has been able to save the full \$100,000. What would you recommend?

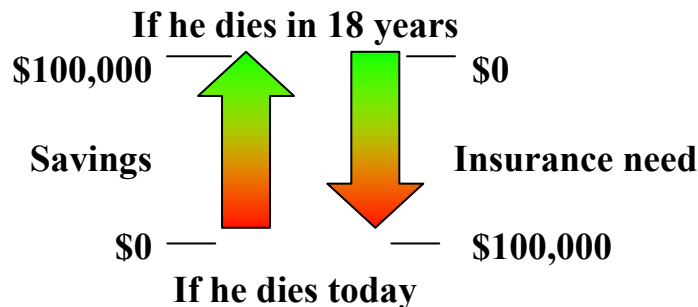
**Can we put an end date on this need? If so, when?**

Yes, therefore term insurance is appropriate. Once his daughter begins university, this need will no longer exist.

**Will the coverage amount remain level, increase or decrease during the term?**

If Martin were to die today, before he has started saving, he would need to have the full \$100,000 available for her. As each year goes by, Martin will have saved more toward his daughter's education, and eventually have the \$100,000 saved by the time she starts school. Over time, his need for coverage decreases as he is able to save more, therefore, decreasing term is appropriate.

*Illustration:*



## Options that can specifically be added to a term insurance policy (at an added cost)

### Renewable feature

This feature allows the policyholder to renew the policy for a certain number of terms. The premium will increase each renewal period, but the renewal rates are fully disclosed in the original policy agreement.

The following should be known about the renewable feature:

- Allows the policyholder to renew the policy for a certain number of renewal periods.
- The renewal occurs without evidence of insurability (the insurance company won't ask about the annuitant's health or current employment).
- The premium will increase each period as stipulated in the original contract.
- Many renewable policies will have what's called a **re-entry** term. This allows you the option to automatically renew at the stated rate, or if you want to provide evidence of insurability, you will be offered a slightly better renewal rate should you prove to be healthy.

Example: Manual bought a 5 year renewable term insurance policy to age 65. For the first term (the first 5 years) he will pay \$25 per month. Should he choose to renew for the next term (years 6 – 10) he will pay \$38 per month, etc. Manual's policy has a re-entry term. As Manual was very healthy he opted to provide evidence of insurability and his renewal rate for the second term was only \$34.50, as compared to \$38 per month.

### Convertible feature

This feature allows the term insurance policyholder to convert the term policy into a permanent life insurance policy (normally whole life) at any point without evidence of insurability.

Example: Dustin has a wife and a young child. He is the main income earner, as he earns \$100,000 per year. His wife works part time. In the event that he dies prematurely, his family would need a substantial lump sum to replace his income. His agent did a needs analysis and determined that in the event of Dustin's death, \$2,000,000 invested at 5% annually would generate an amount equal to his \$100,000 income.

The amount of insurance required was calculated as follows:

$$\text{Insurance required to replace income} = \frac{\text{Income to be replaced}}{\text{Investment return}}$$

The premium on a whole life policy was very expensive and Dustin felt he would have a hard time making the monthly premium payment. The agent then recommended \$2,000,000 in 10 year term insurance with a convertible feature.

The term policy was much cheaper than the whole life policy that was originally quoted. Dustin now has the coverage he needs with the peace of mind of knowing that he can convert the policy to a permanent one as soon as he can afford the increased premium. Going forward, his agent should be meeting with Dustin at least annually to ensure his needs have not changed. At these meetings the agent should continually remind Dustin that he truly requires permanent insurance and stress that he convert his plan to a permanent one as soon as he is in a position to afford the higher premium.

Other things to know:

- When Dustin decides to convert his policy to a permanent one, the conversion occurs without the annuitant having to provide evidence of insurability. In other words, even if the annuitant is now terminally ill he can still opt to convert the policy to a permanent one.
- When Dustin decides to convert his policy to a permanent one, the premium on the new policy will be based on his age at the time of conversion. This is known as an *attained age conversion*.
- Some convertible policies allow for an original age conversion, where the premium on the new policy is based on the original age of the applicant (on the day he first bought the original policy). The down side to this type of conversion is the insured would have to pay a lump sum to bring the cash value of the permanent plan up to the amount that would have accumulated if a permanent plan was bought right at the beginning.

Note: If the last point does not make sense to you, revisit it after learning about whole life insurance.

### Level Premium Approach for Term Insurance

The likelihood of death increases as one gets older. For example, the odds of a 50 year old woman dying this year are much greater than those of a 20 year old woman. In fact, an actuary (an employee of an insurance company that specializes in determining risk) would argue that technically, the chance of death increases on a daily basis. For this reason, the actual cost of insurance should increase yearly, if not daily. Obviously, it is not feasible for an insurance company to increase your insurance cost on a daily basis. Instead, they usually "level out the premium" as described below.

Example:

Assume you have a 5 year (temporary) insurance need, and you buy a 1-year term insurance policy each year for the next 5 years to cover this need. Each year the actual insurance cost would increase because you are one year older (the older you get, the greater the chance of death).

Your premium per year may look like this:

Year 1:	\$200
Year 2:	\$210
Year 3:	\$225
Year 4:	\$242
Year 5	\$260

You would pay \$1,137 in total over the 5 year period, which is an average of \$227.40 per year.

If instead you purchased a 5-year term insurance policy, the insurance company would take the average of each year's premium (\$227.40) and give you a bit of a discount because you are paying more than you should at the beginning of the term. Perhaps your premium for the entire 5-year term would be \$220 per year.

You will notice that in year 1 you are paying \$220, which is \$20 more than the actual insurance cost for that year (\$200). The extra \$20 will be placed in a reserve and will be used to offset the fact that in the later years, you will still only be paying \$220 per year, despite the actual insurance cost being higher than \$220.

Other points to know:

- The excess amount that is placed in reserve belongs to the insurance company. Unlike whole life insurance, which we will learn about shortly, this "reserve" is not considered a "cash value" and it does NOT belong to the policyholder.
- If you cancel the policy before the end of the term, any money in the "reserve" remains with the insurance company.
- At the end of the policy, the "reserve" will be largely depleted as it was used to offset the higher insurance cost in the later years.

### Excerpt #4: Tax Implications of an Employer paying Premiums for Employee

#### Taxation of Disability Income Benefits Received

Unlike life insurance where the death benefit is almost always received tax free, income received under a disability plan may or may not be taxed depending on the situation.

Type of plan	Who is paying the premium?	If employer paying premium, is it a taxable benefit?	Will any income payments be taxable?
Individual Disability Plan	Employer	Yes	No
Individual Disability Plan	Employee	N/A	No
<b>Group Disability Plan</b>	<b>Employer</b>	<b>No</b>	<b>Yes</b>
<b>Group Disability Plan</b>	<b>Employee</b>	<b>N/A</b>	<b>No</b>

**Exam tip:** There is no easy way to remember the above table other than good old-fashioned memory work. However, the highlighted sections are the ones that are historically tested.

Consider the following example:

Gerald owns his own company. He is a great boss and loves to take care of his employees, so he decides to obtain group disability coverage for them. The monthly premium will be \$50 per employee and would pay them a monthly income of \$5,000 per month if they become disabled. Gerald is considering paying the \$50 premium on their behalf. What would you recommend?

From the highlighted section in chart on the last page, you will see that if Gerald (the employer) pays the premium on his employees' behalf, in the event that they become disabled the full \$5,000 monthly income would be taxed in their hands. However, if they pay the premium themselves, the \$5,000 monthly income would not be taxed. As the insurance agent, you should advise Gerald that it is not in his employees best interest for him to pay the group disability premium for them.

If he wants to be a nice guy, tell him to simply increase their salary by \$50, and have them use the money to pay the disability premium themselves.

### **Excerpt #5: Coordination of Benefits**

#### Coordination of Benefits

#### **What happens when you are covered under more than one plan?**

It is possible for an individual to be covered under more than one group plan. For example, a husband may be covered under his own group plan and covered as a dependant under his wife's group plan. Children may be covered under both of their parents group plans. In the event of this dual coverage, CLHIA has put rules in place to prevent an insured individual from being reimbursed for more than the actual cost of services received.

There are two basic steps involved with calculating how much an individual will receive if he or she is covered by more than one group plan.

**Step 1:** Determine which group plan is first, second, third payor.

**Step 2:** Calculate how much each plan will pay.

You will find the rules below. We will then do some practice questions to cement the learning.

## 1. Determining which plan is first payor

### Scenario "A": Your own claim or spouse's claim

1. Any plan that does not have a coordination of benefits provision is always the first payor. *If this does not determine first payor, move to next rule.*
2. If you are covered under more than one plan, the group you are an employee of is first payor. *If this does not determine first payor, move to next rule.*
3. If you are covered under two plans where you are an employee of both groups, your full time employer's plan is first payor. *If this does not determine first payor, move to next rule.*
4. If you are covered under your own plan and a spouse's plan, your plan is first payor.

### Scenario "B": Dependant child claim ~Parents are together

1. Any plan that does not have a coordination of benefits provision is always the first payor. *If this does not determine first payor, move to next rule.*
2. Plan of parent with earlier birthday in the year. Note that this does not necessarily mean the younger parent. *If this does not determine first payor, move to next rule.*
3. If parent's birthdays fall on the same day, the plan of the parent whose first name is earlier alphabetically is first payor.

### Scenario "C": Dependant child claim –Parents are separated / divorced

1. Any plan that does not have a coordination of benefits provision is always the first payor. *If this does not determine first payor, move to next rule.*
2. Plan of the parent who has custody is the first payor.
3. Plan of custodial parent's new spouse is second payor.
4. Plan of non-custodial parent is third payor.
5. Plan of non-custodial parent's new spouse is fourth payor.

### Scenario "D": If the guidelines do not determine a first payor

If you have gone through each step and a first payor has not been determined (it's a tie) then each plan will calculate how much it would pay if it were the only payor and pay a "prorated" amount based on the number of plans. Therefore:

- if there were 2 plans, then each would pay 1/2 of what it would pay if it were the only payor.
- if there were 3 plans, then each would pay 1/3 of what it would pay if it were the only payor, and so on.

Notes:

You will notice that under each scenario, any plan that does not have a coordination of benefits provision is **always** the first payor. If a plan does not have this clause, it essentially means that the insurer refuses to cooperate with other insurers. If that's the case, it will be the first payor on even single claim. This forces most insurers to have a coordination of benefits provision.

2. Calculating how much each plan pays once first / second payor is established

**First payor** pays an amount equal to what it would pay if it were the only payor.

**Second payor** pays the *lesser* of:

- i. the amount it would pay if it were only payor, and;
- ii. how ever much is left after the first payor has paid its share of the claim.

Exercise # 1: Applying the Coordination of Benefits Guidelines

(Answers at the end of chapter)

Coordination of benefits is generally heavily tested on the licensing exam. Once you have mastered this style of question through practice, they become very obtainable marks on the exam. The following practice questions will allow you to sharpen your skills. You will also get lots of practice on SeeWhy Financial Learning's interactive exam preparation software.

*Use the following scenario for practice questions 1*

Blaine and Lisa have been married for 10 years and have a five-year-old son. Blaine was born on June 1<sup>st</sup> 1970 and Lisa was born on August 1<sup>st</sup>, 1975. Blaine works for ABC company and has full dental coverage under his plan. His plan also offers coverage for dependents. It covers basic dental up to \$1,000 per year and has a \$25 single deductible with a 90% co-insurance factor. Lisa also has a plan through her work, which provides basic dental coverage. Her plan covers up to \$1,500 per year and has a \$50 deductible and 80% co-insurance factor.

**Practice Question # 1**

**Their child requires basic dental work that costs \$500.**

**Which plan is first payor?**

**How much will Blaine's plan pay?**

**How much will Lisa's plan pay?**



Answers to Practice Question # 1:

*Which plan is first payor?*

- Refer to scenario "B" under the Coordination of Benefits guidelines
- **Blaine's plan is first payor** because his birthday is earlier in the year

*How much will Blaine's plan pay?*

- =  $(\$500 \text{ claim} - \$25 \text{ deductible}) \times 90\%$
- = **\$427.50**

How much will Lisa's plan pay?

- Her plan would pay **\$72.50**, which was the lesser of:
  - i. the amount it would pay if it were only payor, and;
  - ii. how ever much is left after the first payor has paid its share of the claim.

$(\$500 \text{ claim} - \$50 \text{ deductible}) \times 80\% = \$360$ , or;  
 $\$500 \text{ claim} - \$427.50 = \mathbf{\$72.50}$

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